46441 SERVICE DATE – MAY 16, 2018
OE

SURFACE TRANSPORTATION BOARD

CORRECTED NOTICE*

Docket No. EP 689 (Sub-No. 9)

SIMPLIFIED STANDARDS FOR RAIL RATE CASES—
2016 RSAM and $R/VC_{>180}$ CALCULATIONS

Decided: May 16, 2018

In this decision, the Board is publishing the most recent revenue shortfall allocation methodology (RSAM) and revenue-to-variable cost greater than 180% ($R/VC_{>180}$) ratios for the Class I carriers (for the years 2013-2016), as well as their four-year averages, for use in Three-Benchmark cases.

Under 49 U.S.C. § 10701(d)(3), the Board is directed to "maintain 1 or more simplified and expedited methods for determining the reasonableness of challenged rates in those cases in which a full stand-alone cost presentation is too costly, given the value of the case." In Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1) (STB served Sept. 5, 2007),[1] the Board modified and clarified its guidelines for such proceedings by establishing a simplified Stand-Alone Cost test, clarifying its Three-Benchmark approach for the smallest disputes, and establishing eligibility thresholds for each type of case.[2] The Three-Benchmark approach compares a challenged rate to three measures of the defendant's revenues and variable costs.

The first benchmark, RSAM, measures the average markup that the railroad would need to charge all its "potentially captive" traffic for the railroad to earn adequate revenues as measured by the Board under 49 U.S.C. § 10704(a)(2). Potentially captive traffic is defined as

---

* This decision corrects the decision served in this docket on March 5, 2018. In that decision, the Office of Economics calculated the revenue shortfall allocation methodology using variable costs from the Board's Uniform Railroad Costing System (URCS). The Office of Economics has since been alerted to an error in how those costs were calculated. Given these changes in URCS costing, Table I and Table II both are being updated here. The March 5, 2018 decision remains unchanged in all other respects.

[1] Aff'd sub nom. CSX Transp., Inc. v. STB, 568 F.3d 236 (D.C. Cir. 2009), and vacated in part on reh'g, CSX Transp., Inc. v. STB, 584 F.3d 1076 (D.C. Cir. 2009).

[2] Subsequently, in Rate Regulation Reforms, EP 715 (STB served July 18, 2013), pet. granted in part sub nom. CSX Transp., Inc. v. STB, 754 F.3d 1056 (D.C. Cir. 2014), remanded to Rate Regulation Reforms, EP 715 (STB served Dec. 3, 2014), the Board increased the rate relief caps in both the simplified Stand-Alone Cost test and the Three-Benchmark approach.

all traffic priced at or above the 180% R/VC level, which is the statutory floor for regulatory rail rate intervention. See 49 U.S.C. § 10707(d); Burlington N. R.R. v. STB, 114 F.3d 206, 210 (D.C. Cir. 1997); W. Tex. Util. v. Burlington N. R.R., 1 S.T.B. 638, 677-78 (1996). The RSAM benchmark is calculated by adding the carrier's revenue shortfall (or subtracting the overage) shown in our annual revenue adequacy determination, adjusted for taxes, to the numerator of the $R/VC_{>180}$ benchmark. Simplified Standards for Rail Rate Cases—Taxes in Revenue Shortfall Allocation Method, EP 646 (Sub-No. 2), slip op. at 2-3 (STB served May 11, 2009).

The second benchmark is $R/VC_{>180}$. This benchmark measures the average markup over variable cost earned by the defendant railroad on its potentially captive traffic. Simplified Standards for Rail Rate Cases, EP 646 (Sub-No. 1), slip op. at 10. The $R/VC_{>180}$ benchmark is calculated using the Board's confidential Waybill Sample data[3] by dividing the total revenues earned by the carrier on potentially captive traffic by the carrier's total variable costs for that traffic. Id. at 20. The ratio of RSAM to $R/VC_{>180}$ provides an estimate of how much more or less the railroad would need to charge its potentially captive traffic to be revenue adequate. Id.

The third benchmark is revenue-to-variable cost comparison (R/VC_{COMP}). This benchmark is used to compare the markup on the challenged traffic to the average markup assessed on other potentially captive traffic involving the same or a similar commodity with similar transportation characteristics. Id. at 10. The R/VC_{COMP} ratio for appropriate comparison traffic is computed using traffic data from the rail industry Waybill Sample and applying the Board's Uniform Railroad Costing System (URCS). Id. at 10-11.

The Board publishes tables each year showing the most recent RSAM and $R/VC_{>180}$ ratios for each Class I railroad, as well as their rolling four-year averages. Because R/VC_{COMP} is case specific, that ratio is calculated only after a shipper files a Three-Benchmark rate complaint.

The attached tables contain the most recent RSAM and $R/VC_{>180}$ ratios. Tables I and II represent percentages for the most recent four-year period from 2013 to 2016 for all Class I carriers. Interested readers may review the workbooks used to compute the data in these tables by visiting our website at the following link: https://www.stb.gov/stb/industry/econ_reports.html. Once there scroll down to the paragraph titled "Revenue Shortfall Allocation Method (RSAM)" and select the "RSAM 2013-2016 Tables" and "2016 RSAM Computation" hyperlinks.

By the Board, Dr. William J. Brennan, Acting Director, Office of Economics.

[3] The Waybill Sample is a statistical sampling of railroad waybills that is collected and maintained for use by the Board and by the public (with appropriate restrictions to protect the confidentiality of individual traffic data). See 49 C.F.R. pt. 1244.

Table I
RSAM Mark-up Percentages 2013 – 2016

Railroad	4-Year Average	2016	2015	2014	2013
BNSF	174%	194%	158%	176%	169%
CSXT	264%	265%	267%	254%	269%
GTC	263%	277%	244%	266%	266%
KCS	337%	366%	343%	320%	320%
NS	253%	247%	267%	243%	253%
SOO	247%	239%	176%	350%	223%
UP	178%	185%	171%	171%	186%

Table II
$R/VC_{>180}$ Percentages 2013 – 2016

Railroad	4-Year Average	2016	2015	2014	2013
BNSF	221%	223%	221%	220%	222%
CSXT	253%	260%	256%	247%	249%
GTC	272%	270%	268%	277%	275%
KCS	241%	248%	245%	234%	235%
NS	258%	253%	256%	258%	264%
SOO	242%	251%	247%	235%	233%
UP	234%	241%	234%	232%	230%